

## RESPONDENT INFORMATION

To help us make the most of your response, please tell us about yourself and how you want us to use the information you provide. There are some questions marked \* and these must be answered by all respondents, unless you are directed past this question.

* I am responding as:		<input type="checkbox"/> An individual
		<input checked="" type="checkbox"/> An organisation/group
Name of Organisation (if appropriate)	NHS Health Scotland	
Forename		
Surname		
Address		
Postcode		
Telephone		
Email		
Do you consider yourself or your organisation as from or representing?		
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
a rural area	an urban area	an area with both urban and rural parts
		<input checked="" type="checkbox"/> don't know / not applicable
Would you be happy to be approached by the Commission for further discussion about your submission?		<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<b>If you are responding as an individual:</b>		
* Do you agree to your response being made available to the public on the Commission's web site?		<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
* If you have agreed to your response being made available to the public, please tell us if we may also make your name and address available. (Please select one option only)		
<input type="checkbox"/> Yes, make my response, name and address all available		
<input checked="" type="checkbox"/> Yes, make my response available, but not my name and address		
<input type="checkbox"/> Yes, make my response and name available, but not my address		
<i>If you are responding as an individual we would be grateful if you could provide some additional information at the end of this form. This is absolutely optional but will help us get an overall picture of the information we receive.</i>		
<b>If you are responding as a group or organisation:</b>		
* The name and address of your organisation will be made public on the Commission's web site. Are you content for your response to also be made available?		<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Which of the following best describes your organisation? (Please select one option only)		
<input type="checkbox"/> Community Group	<input type="checkbox"/> A business	
<input type="checkbox"/> Local Authority	<input type="checkbox"/> A government department or agency	
<input checked="" type="checkbox"/> Other public sector organisation	<input type="checkbox"/> A social enterprise	
<input type="checkbox"/> Third Sector organisation	<input type="checkbox"/> Other (please specify)	
<input type="checkbox"/> Professional body		
Short description of the main purpose of your organisation:		
<i>NHS Health Scotland is a national Health Board working with public, private and third sectors to reduce health inequalities and improve health.</i>		

## Tell us what you think

We have not provided a long list of questions, but we do want to hear what you have to say about some themes. Please respond to as few or as many as you wish. If you would prefer to send us other information, please feel free to do so. However, it would be helpful to keep your response to no more than eight pages.

*If you are able to, please provide evidence or examples in support of what you say. This will help us explore your ideas further.*

### 1. SCOTLAND'S CURRENT SYSTEM OF COUNCIL TAX

**To what extent does the current system of council tax deliver a fair and effective system of local taxation in Scotland? Are there any features of the current system that you wish to see retained or changed?**

*You may wish to illustrate your answer with examples from your own experience.*

In this response, we present evidence and arguments that the system of local taxation could be made fairer and more effective if it was more closely related to the gradient in income and wealth of contributors, with enhanced local accountability. Such a development would contribute to measures designed to reduce health, economic and social inequalities.

#### **Background – why local government taxation is important for health inequalities**

NHS Health Scotland is a special NHS Board which aims to reduce inequalities in health across the Scottish population and improve the health of the whole population. We use evidence and data to inform decision-makers and the public about how we can improve Scotland's health outcomes and thereby contribute to the Scottish Government's national outcomes: namely 'we live longer, healthier lives'; and, 'we have tackled the significant inequalities in Scottish society'.

Average (mean) life expectancy in Scotland has improved steadily since 1950, but more slowly than in other wealthy countries.<sup>1</sup> However, within Scotland the improvement for those living in the least deprived areas, those who are the most educated and those who are in social class I and II have seen much faster improvements such that the inequalities between them and the rest of the population has grown over the last 35 years.<sup>2</sup> Inequalities in mortality in Scotland are amongst the highest in western and central Europe, rising rapidly during the 1980s and 1990s;<sup>3,4</sup> however, this situation is not inevitable and can be improved.<sup>5-7</sup>

Inequalities are caused by a fundamental inequity in the distribution of money, power and resources. This has an impact on the opportunities for good quality work, education and housing etc. In turn, these determinants shape individual experiences and health throughout life.<sup>8,9</sup>

The scale of the health inequalities problem is strongly influenced by the magnitude of these underlying inequalities. Action on the worsening trends in health inequalities needs to be re-balanced to address the fundamental drivers of social inequality which determine inequalities in income, employment, education and daily living conditions.

The impact of inequalities on the lives of families and communities was summarised by the Equalities and Human Rights Commission (EHRC) in a 2010 study of the significant inequalities in Scotland. They found that social inequality creates barriers in accessing services and facilities including housing, leisure, transport, justice and healthcare; segregation of children in education between private and public provision; discrimination, social exclusion and lack of participation; targeted violence and domestic abuse; progression in the labour market and workplace discrimination; and inequality in access to health resources and advice, and in health outcomes.<sup>10</sup>

A strategy to address health inequalities in Scotland will require actions operating across the health and public services, with community interests and other sectors, to address the fundamental, wider environmental and individual determinants of health inequalities. Action to address the wider environmental causes, such as the availability of quality work, housing and education; and individual experiences, risks and lifestyles are important, but will not solve the problem. The fundamental (upstream) causes of health inequalities such as lack of power and money also need to be addressed through, for example, fiscal policies including changes in the tax and benefits system and initiatives to address democratic deficits. All actions will need to balance the goals of improving overall population health as well as reducing health inequalities.<sup>5,8</sup> A key strand of this strategy is progressive individual and corporate taxation.

Across all forms of taxation, the impact is regressive in that the poorest 10% have been contributing a greater proportion of their incomes in tax than the population average, and substantially more than the richest 10%.<sup>11</sup> The current system has also perpetuated the system whereby in Scotland in 2012/13, 820,000 individuals were living in relative poverty (rising to 1 million people living in poverty after housing costs). This reverses the reduction in relative poverty seen in recent years.<sup>12</sup> There has been a sustained move away from progressive direct taxation towards regressive indirect taxation over the last 35 years and this has led to a comparatively greater tax burden on those with lowest incomes (36% income paid in tax) compared to those with the highest incomes (33% income paid in tax).<sup>13</sup> It is thought that the main drivers of the regressive nature of the tax system in the UK is down to council tax, even with council tax benefits, and indirect taxes such as VAT.<sup>14</sup> Furthermore, the tax and benefit reforms announced in the 2010 budget and implemented between 2010 and 2014, have also been shown to be, on balance, regressive in nature at least across the bottom nine income decile groups.<sup>15,16</sup> These inequalities are likely to be exacerbated further with the current plans to reduce the value of social security and reduce eligibility.<sup>17</sup>

### **Local taxation at present**

Local taxation has a key role to play in the funding of public services, enhancing local democracy and reducing inequalities. Council tax, whilst often regarded as a property tax, is hybrid in nature as it incorporates elements in relation to both property and income due to the operation of council tax benefit paid by the Department of Work and Pensions.<sup>18</sup> This, in part, offsets the cost of council tax for lower income households. It is also argued to have elements of a wealth tax as it reflects house value, and also a poll tax due to the single persons' discount.

There are several advantages of council tax as a model of taxation:

1. It provides a stable source of income for local government (in that it does not change dramatically in response to economic trends)
2. It is difficult to avoid because individual owners are easily identified and the value of the house is verifiable

However, there are a number of substantial shortcomings with the council tax model:

1. The lack of progressivity and the consequential exacerbation of inequality in society<sup>19</sup>
2. The current taxation levels are based on 1991 property valuations which are now very dated and do not reflect the higher current values nor the increased inequality in house values (except for new properties)
3. As this is a property-based tax rather than income-based, there can be a disconnection between the ability to pay and council tax charged

#### 4. There are also a number of exemptions from business rates which seem anomalous

Specific criticisms have been levelled at the council tax freeze, both in terms of the direct impact on households at the lower end of the income spectrum, as well as on local government revenues. Inflation has continued during the period of council tax freeze and whilst the original £70 million per years transferred from Scottish Government to local councils helped offset the lost revenue, this has now ended and councils must now finance services from their general budgets. Inevitably this leads to efficiency savings being implemented with consequent impacts on services, service delivery and loss of jobs, often for lower paid workers.<sup>11</sup>

A number of modifications to the current system of council tax could be attempted (a limited number of the least progressive of which have been modelled<sup>20 21</sup>):

1. Revaluation of houses with the retention of the current council tax bandings would be likely to reduce inequality and raise a substantially greater revenues for public services (although there would remain substantial misclassification of individuals and the lack of progressivity across bands would not be addressed)
2. Extension of the council tax bandings to increase the taxation on the highest value housing would be likely to lead to a small reduction in inequalities and raise a small amount of additional revenue for public services
3. Changes to the council tax bandings to reduce the taxation on lower value housing and increase the taxation of higher value housing would be likely to reduce inequality and could be made to be revenue neutral or revenue generating
4. Flat increases to the council tax across bandings would increase inequality but would raise more revenue for public services

Overall, none of these modifications would be likely to change the council tax system from being a regressive tax to a progressive one which acts to reduce inequality. However, a modified land or property tax designed to tax those with substantial wealth might complement income and profit taxes to create a much more progressive taxation system overall.

## 2. REFORM OF LOCAL TAXATION

**Are there alternatives to the current system of council tax that you think would help to reform local taxation in Scotland? What are the main features of these, and why do you think they would deliver improvement?**

*Do you have any examples of why this is the case?*

Given the important issues in relation to the current regressive nature of council tax, there are a number of alternatives for local taxation worth consideration. We will consider Community Charge (Poll Tax), Land Value Tax, and Local Income Tax, with variations to the current Council Tax already considered in the previous question.

#### Community Charge (Poll Tax)

The Poll Tax was implemented in Scotland in 1989/90 and was levied as a flat rate charged for each adult living in Scotland. This was a highly regressive form of taxation, and was undermined by a number of administrative and enforcement difficulties. This form of taxation would be counter to any attempt to redistribute income and tackle inequalities.

#### Land Value Tax

Land Value Tax (LVT) is proposed as an alternative to both income and sales taxes. The underlying principle is that whilst much of the land in Scotland is owned by a small number of private individuals, the value of that land is increased through both nature and social and economic activity of individuals and communities. This value includes infrastructure and services created through public expenditure. However the beneficiary of this is likely to be the landowner rather than the community more widely. This provides the rationale for a fairer system of local taxation. One proposed advantage of this tax is that landowners would be encouraged to develop their land, and to discourage landowners from allowing buildings and land to degenerate. Furthermore, the immovable nature of land means that some of the pitfalls of tax related to commerce, such as tax havens, can be easily avoided.<sup>11</sup> It is proposed that LVT, in the long term, would reduce the value of land, leading to lower house prices and mortgage borrowing, encouraging brown field sites back in to use, and reducing the likelihood of 'landbanking' by businesses such as supermarkets.<sup>22</sup> It is not clear whether an LVT would create revenue streams for local government broadly proportionate to local needs or whether a form of redistribution (as currently occurs with the local government grants from the Scottish Government) would be required.

#### Local Income Tax

There is evidence to suggest that a Scottish Service Tax (SST), a form of local income tax, could provide increased revenues for local government in a progressive way, based on ability to pay, if set at sufficient marginal rates.<sup>23</sup> Modelling suggests that it would benefit those on a low income, including those employed on low wages, and those on basic pensions and benefits facing means testing for council tax benefits, many of whom fail to claim. Furthermore, there is a reduced risk of tax avoidance or 'fiscal flight' as the tax would be levied throughout Scotland, it would have minimal administrative costs since it would utilise the current PAYE system, and would substantially reduce income inequalities.

However, there are significant objections to a local income tax.<sup>24</sup> It is seen as desirable to have as broad a tax base as possible and income tax already provides around a third of revenue from UK income tax; some argue that additional income taxes may provide a disincentive to work (although the evidence for this is weak); and it would be likely to focus only on earned rather than unearned income (and would therefore complement wealth taxes). One issue with the SST is that the revenue stream for less affluent local authorities would be lower than that for more affluent areas and so there may be a requirement for redistribution between areas to ensure local needs are met (which could occur through an adjustment to the grants from the Scottish Government), and any local variability in the levels of SST set could lead to movement of higher income individuals to lower taxed neighbouring areas.

### **3. LOCAL PRIORITIES**

**How well do you think that communities' local priorities are accounted for in the way that local taxation operates at the moment? If there is room for improvement, how should things change?**

*Do you have any ideas or examples about how this could improve people's lives?*

The current council tax system does not allow for flexibility in the ratios of council tax banding which restricts the way in which the tax has been set. This has led to some local authority areas with high needs setting substantially higher rates across the board than neighbouring areas with lower needs (e.g. in west central Scotland). Creating the ability to vary local taxes is therefore a difficult issue: without variability local democracy and accountability is restricted; but the creation of local variability creates a regressive system whereby the local authorities with the greatest needs (and the greatest poverty) have the highest rates. The recent council tax freeze has further reduced the local accountability because councils have been given financial incentives to reduce council tax in real terms – essentially trapping local government in a position where they would not see the additional revenues that would otherwise have resulted from an increase in council tax rates.

A system of local government which reduces poverty and inequality would however contribute to the prevention of social and health problems (and thereby free up local government resources for spending on other things). It has been calculated that around 40% of public spending is currently accounted for by interventions that could have been avoided by prioritising a preventative approach.<sup>25</sup> The focus needs to shift away from meeting the cost of dealing with health or social problems after they have developed to prevention and early intervention. A more progressive form of local government taxation would help to achieve that overall aim by reducing poverty and inequality – the biggest drivers of preventable social and health problems.

#### 4. FURTHER INFORMATION

**We would like to keep the conversation going. Please tell us about any events, networks or other ways in which we could help achieve this.**

*Please provide your response here*

**Thank you for your submission. If you have any queries about the Call for Evidence please contact us at:**

Commission on Local Tax Reform  
Verity House  
19 Haymarket Yards  
Edinburgh EH12 5BH  
0131 474 9200  
email: [info@localtaxcommission.scot](mailto:info@localtaxcommission.scot)  
twitter: [@localtaxscot](https://twitter.com/localtaxscot)

- 
- <sup>1</sup> McCartney G, Walsh D, Whyte B, Collins C. Has Scotland always been the 'sick man' of Europe? An observational study from 1855 to 2006. *European Journal of Public Health* 2011;1-5 (doi:10.1093/eurpub/ckr136).
- <sup>2</sup> Leyland A, Dundas R, McLoone P, Boddy F. Inequalities in mortality in Scotland 1981-2001. Glasgow: MRC Social and Public Health Sciences Unit, 2007.
- <sup>3</sup> Popham F, Boyle P. Assessing socio-economic inequalities in mortality and other health outcomes at the Scottish national level. Edinburgh: Scottish Collaboration for Public Health Research and Policy, 2010.
- <sup>4</sup> Eikemo T, Mackenbach JP. EURO GBD SE. The potential for reduction of health inequalities in Europe. Final report part 1. Rotterdam: Erasmus MC, 2012.
- <sup>5</sup> McCartney G. What would be sufficient to reduce health inequalities in Scotland? Edinburgh: Scottish Government, 2012.
- <sup>6</sup> Krieger N, Rehkopf DH, Chen JT, Waterman PD, Marcelli E, Kennedy M, et al. The fall and rise of US inequities in premature mortality: 1960-2002. *PLoS Medicine / Public Library of Science* 2008;5(2):e46
- <sup>7</sup> Thomas B, Dorling D, Davey Smith G. Inequalities in premature mortality in Britain: observational study from 1921 to 2007. *BMJ* 2010;341:c3639.
- <sup>8</sup> Beeston C, McCartney G, Ford J, Wimbush E, Beck S, MacDonald W, et al. Health Inequalities Policy review for the Scottish Ministerial Task Force on Health Inequalities. Edinburgh: NHS Health Scotland, 2013.
- <sup>9</sup> Marmot M, Atkinson T, Bell J, Black C, Broadfoot P, Cumberlege J, et al. Fair Society, Healthy Lives. The Marmot Review. London: The Marmot Review, 2010.
- <sup>10</sup> Management EaHRCatOfP. , 2010, Significant inequalities in Scotland: identifying significant inequalities and priorities for action. Manchester: Equality and Human Rights Commission, 2010.
- <sup>11</sup> Cooper C, Danson M, Whittam G. Local taxation, spending and poverty: new choices and tax justice. Glasgow: The Poverty Alliance, 2013.
- <sup>12</sup> Quarterly Poverty Briefing. Scottish Government: Communities Analytical Services, March 2015.
- <sup>13</sup> Sinfield, A. (2011) 'Whose welfare state now?', A Whose Economy Seminar Paper, Oxfam, <http://policy-practice.oxfam.org.uk/publications/whose-economy-seminar-papers-complete-series-188809>
- <sup>14</sup> Cooper, C., Danson, M. and Whittam, G. (2010) 'The neoliberal project – local taxation intervention in Scotland', *Critical Perspectives on Accounting*, 21, 195-210
- <sup>15</sup> Hills J. The Coalition's Record on Cash Transfers, Poverty and Inequality 2010-2015. London, CASE & LSE, 2015.
- <sup>16</sup> Browne J, Levell P. IFS Briefing Note BN108: The distributional effect of tax and benefit reforms to be introduced between June 2010 and April 2014: a revised assessment. London: Institute of Fiscal Studies, 2010.
- <sup>17</sup> Taulbut M, McCartney G. NHS Health Scotland, submission to HM Treasury's call for evidence on July 2015 Emergency Budget. Glasgow, NHS Health Scotland, 2015.
- <sup>18</sup> Hills J, Sutherland H. Banding, Tilting, Gearing, Gaining and Losing: An Anatomy of the Proposed Council Tax. Suntory Toyota International Centre for Economics and Related Disciplines. London: LSE, 1991.
- <sup>19</sup> Bell D. Council tax proposals in the Scottish Elections 2011. Stirling Economics Discussion Paper 2011-10. Stirling: University of Stirling, 2011.
- <sup>20</sup> Comerford D, Eiser D. Constitutional change and inequality in Scotland. London: ESRC, 2014.
- <sup>21</sup> Hoogland L. Local Tax for Local People: geographical variances in Council Tax and the idea of fairness. University of Sheffield, Department of Geography. December 2010.
- <sup>22</sup> Wightman A. A land value tax for Scotland – fair, efficient, sustainable. Glasgow: Scottish Green Party,
- <sup>23</sup> Danson T, Whittam G. Time for redistribution of income: the case for a Scottish Service Tax. Capital and Class. Published by the Conference of Socialist Economists on September 22, 2003.
- <sup>24</sup> Local Government Finance Committee. A Fairer Way. Edinburgh: Local Government Finance Committee Review, 2006.
- <sup>25</sup> Christie Commission. The Future Delivery of Public Services: Public Services Commission, 2011